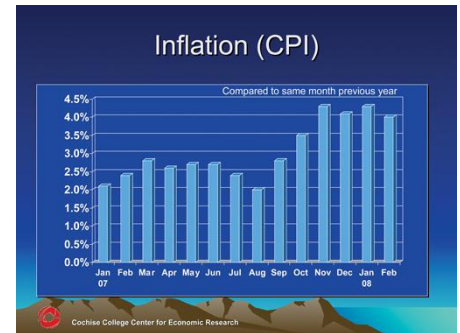


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Economic forum: Outlook shows city caught in national slowdown



SIERRA VISTA — Indicators of an economic downturn were the dish du jour Wednesday at the 2008 Sierra Vista Economic Outlook Luncheon.

While many local economic indicators offer a bleak outlook, the housing market has some promising signs. About 400 local leaders of government, businesses, nonprofits and other organizations were in attendance for the Cochise College Center for Economic Research event at the Windemere Hotel and Conference Center.

Robert Carreira, director of the Center for Economic Research, offered the local economic perspective, while Arizona State Treasurer Dean Martin gave a sobering view of the state economy.

Whether the United States is in recession is still a topic for debate, there's no question about Arizona's status, according to the state treasurer.

"Arizona is in a recession," he said.

The federal government has not said whether the nation is in a recession, because six months of data are needed to make that determination.

Martin gave an analysis of Arizona's housing boom, turned bust. It was similar to "all those individuals who have a little too much fun on Friday night, and they pay for it on Saturday morning," he said.

"Well, Arizona had a lot of fun in housing in '05 and '06, and now this is the hangover."

In 2006, a third of all mortgages issued in Arizona were subprime or high-rate mortgages. Now those buyers are gone and left an over supply and lack of demand for housing, Martin said.

How much "fun," or price appreciation, individual housing markets had will likely correspond to their recovery time. Areas with strong economic assets, such as Fort Huachuca is to the Sierra Vista economy, should recover sooner, Martin said.

Carreira said that although local demand for homes has decreased, home prices have not. The increased costs of selling a home, including Realtors' fees, other closing costs and home equity loans have become a burden to homeowners.

"So many homeowners simply can't afford to sell their homes at a much lower price," Carreira said.

While home sales have fallen since 2005, they are still higher than "pre-boom years," he said. Last year 1,081 homes sold in the Sierra Vista area, according to the Southeast Arizona Multiple Listing Service. In 2001, 986 were sold.

"It might be more accurate to call this a housing market correction, not a slump or a bursting of a bubble," Carreira said in regard to the Sierra Vista area.

Home sales rates were still falling in the first two months of the year, an indication that existing home sales have not yet "bottomed out," but new home construction is picking up again, he said.

Permits for single-family homes more than doubled in January and February this year, compared with those months in 2007.

Last year 178 permits for new homes were issued in Sierra Vista, the lowest since 1995.

While it can't be said yet if the local and national economies are in a recession, the concerns from the housing market slowdown remain.

"The construction industry loses jobs, along with satellite industries," he said, which include wholesale trade and home improvement stores. The job losses could then lower the level of income in the economy, leading to less spending in other industries and more job losses and so on.

Martin doesn't expect Arizona's "mild" recession to get much worse, but it should outlast the national recession.

"People want to move here. That hasn't changed. The problem is they can't sell their home in Minnesota right now," he said.

In early 2009, Arizona's housing market should begin to grow again, with a full recovery in about two years.

"Remember, every time you see someone who's coming by to visit, say 'Hi,' be nice, welcome them back, because they may be the future home seller (sic) purchaser we need to get out of this economic recession," he said.

Unfortunately, Carreira said, other economic factors could be preventing some of those visitors from coming to Sierra Vista anytime soon. Local tourism could see declines from high gasoline prices, though the declining dollar could bring more international tourists. Increases in the Consumer Price Index nationally are also a worry, he said. "Last year, the annual inflation rate was 2.8 percent. Most economists accept this as a safe level of inflation, though perhaps on the higher end of what's considered safe. But in December, consumer prices were 4.1 percent higher than December 2006, and in January they were 4.3 percent higher than January last year," Carreira said.

This news was the most shocking to Melissa Hartman, project manager for the Sierra Housing and Resource Partners.

"I knew I was feeling the pinch, but I didn't know how much," she said after the presentation.

City retail sales, bar and restaurant sales, and hotel and other accommodation sales growth all declined in the last quarter of 2007.

"If you're paying more for energy and food, you have to make cuts somewhere, and nonessential spending such as dining out is usually one of the first things cut from the family budget," Carreira said.

He also expects unemployment to rise and job growth to slow this year.

In 2007, the most job losses were seen in the construction industry across the county, with 350 jobs lost. This also was reflected in commercial construction decline in Sierra Vista.

Commercial building construction in Sierra Vista peaked in 2006 at \$61 million in investment and slowed last year to \$43 million, but that shouldn't be too alarming, Carreira said.

"With the exception of 2006, the year 2007 saw the most new commercial construction in Sierra Vista since 1985," he said.

However, the outlook for 2008 is not as good. "In January and February, there was only one permit issued for new commercial construction, which is a \$1.2 million project. Last year there were five new projects in the first two months of the year, for \$23.6 million in new commercial construction," Carreira said.

Recession fears could continue to slow commercial development, but the development of parks, road improvements and other projects are still under way.

After Carreira's talk, City Manager Chuck Potucek reported on current city priorities and projects, which were determined last year in "Our Future Vistas," the city's 20-year strategic plan, which is available at City Hall.

By Laura Ory Herald/Review